



ELCA Foundation
Evangelical Lutheran Church in America

ELCA ENDOWMENT FUND POOLED TRUST — FUND A

FOURTH QUARTER 2009 REPORT

Endowment investing in 2009

Bonalynn Wallach

Manager for Investments, ELCA Foundation

Endowments have faced many challenges over the past year and as a result, administrators are closely reviewing their investment policies. Most endowment administrators are not changing their policies but confirming that their objectives are in line with their investment strategies.

What is an endowment fund?

An endowment fund is historically understood as a perpetual fund from which only income (i.e., interest, dividends, realized or unrealized gains) is distributed. Usually established with donor-restricted gifts or bequests, endowments can be permanently restricted or temporarily restricted. Many endowments, like those in the ELCA Endowment Fund, use a spending policy approach which defines the distributable amount as a percentage of the market value of all endowment assets.

What characterized the environment for endowments in 2008 and 2009?

2008 involved huge market declines and illiquidity with a continued decline through March 2009. Since that time the markets have rebounded and the Endowment Fund Pooled Trust Fund A (EFPT Fund A) has benefited by adhering to its disciplined long-term investment strategy.

What lessons were learned?

One of the key lessons learned by many investors was the need to understand the objective behind the endowment investment. The money needs to be invested in a way that is prudent to support the mission. Ministries supported by endowment funds have different operating budgets and should be aware of their spending needs and invest accordingly.

Another lesson many learned was the importance of liquidity and transparency within investment portfolios. Many of the illiquid assets were investments in hedge funds and other alternatives. Those reaching for yield were often giving up liquidity that was needed when the markets declined. EFPT Fund A had no exposure to these illiquid assets and therefore was not in a position of panic during the downturn. Larger endowment investors had exposures of up to 50% in alternative investments and had difficulty raising cash to meet distribution requirements.

While markets were turning downward, the EFPT Fund A did experience its share of lowered returns, but keeping to its long-term investment and distribution strategies puts it in the best position for meeting its long-term objective of providing participants with a stable, quarterly stream of distributable investment income that grows over time approximately in line with the expected long-term rate of inflation.

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Fund A — Fourth quarter 2009 performance

To help you understand the “drivers” of Fund A’s overall performance, every quarter we provide you market context for each asset class within Fund A.

MARKET COMMENTARY

Heather H. Williamson, CFA

Senior Investment Manager, ELCA Board of Pensions

2009 was quite a year. The U.S. stock market (as measured by the Dow Jones U.S. Total Stock Market Index) declined by 25% as of March 9, only to storm back and end the year up 29%, a 70% surge in just a little over nine months (noting that the U.S. stock market remains below its 2007 peak). Bonds did well, too. For the year, the Citigroup Broad Investment Grade Index returned a healthy 5.1% and the Citigroup High-Yield Cash Pay Capped Index returned an astounding 52.3%. Even more importantly, spreads narrowed and liquidity returned to the fixed-income markets.

One can be forgiven if 2009 did not feel good, despite the capital market’s comeback. The reality is 2009 was just as bad as it was good. We all have stories of individual triumphs and travails. So many people lost savings, jobs and homes that it is hard to gloss over the significant ramifications this recession has had on the United States and around the world.

While there is little debate the United States is in an economic recovery, it remains fragile. Banks are still in trouble, the Federal Deposit Insurance Corporation is underwater, commercial real estate is stressed, unemployment is high, and one in four homes are currently worth less than the debt being carried on them. It is not just individuals who have a high burden of debt; there is a soaring federal deficit, as well. In an economy that relies

heavily on consumer spending, this is troubling news. By some estimates, in order to get to 5% unemployment (the level before the current recession) in the next five years, net growth in jobs would need to be roughly 250,000 per month (more than any month save one in the 1990s). These are daunting problems and while government stimulus may have brought us back from the brink, only real economic growth will lead to a sustainable recovery.

There is considerable speculation in the marketplace about how and when things will be normal again. But consider “normal” may never have been what we thought in the first place. Capital markets tend to swing from one extreme to another over time and end up over long periods of time, being about “average.”

We can take comfort and even be optimistic if we invest for the volatile reality rather than the trend of today (whether that is up or down). Having been investment professionals for a number of years, the most common question we hear is “Where should we put our money right now?” The answer has not changed. Investors (individuals and mission-based organizations alike) should choose a broadly diversified asset allocation that is right for them and stick with it unless their circumstances change. Those who attempt to time the market risk miss out on potential market rallies (like the one in 2009). While diversification may not give anyone bragging rights and people can still lose money over short periods, investing prudently in a diversified manner for the long term remains a strategy we steadfastly believe in and have seen work.



FUND A PORTFOLIO MARKET VALUE¹

As of December 31, 2009, Fund A had investments with the ELCA Board of Pensions of approximately \$328.1 million:

- \$166.3 million in the U.S. equity component
- \$62.6 million in the investment-grade, fixed-income component

- \$33.5 million in the high-yield, fixed-income component
- \$49.0 million in the non-U.S. equity component
- \$16.5 million in global real estate securities

FUND A INVESTMENT PORTFOLIO PERFORMANCE AS OF DECEMBER 31, 2009

		FOURTH QUARTER (%)	ONE YEAR (%)	FIVE YEARS (%)	10 YEARS (%)
Total Fund A ²		4.49	29.14	3.86	3.54
Fund A benchmark <i>(Dow Jones Total Stock Market Index³ 50%, MSCI All Country World (ex-U.S.) Index 15%, Citigroup High-Yield Cash-Pay Capped Index 10%, Custom Citigroup Index⁴ 20%, Wilshire U.S. Real Estate Securities Index/Wilshire Ex-U.S. Real Estate Securities Index⁵ 5%)</i>		4.39	29.16	3.12	2.64
EQUITIES	Fund A U.S. equity portfolio ²	5.94	29.69	1.35	0.83
	U.S. equity benchmark <i>(Total Stock Market Index³)</i>	5.81	28.57	0.82	-0.17
	Fund A non-U.S. equity portfolio ²	3.96	43.99	7.00	N/A ⁶
	Non-U.S. equity benchmark <i>(MSCI All Country World (Ex-U.S.) Index)</i>	3.74	41.45	5.83	2.75
HIGH-YIELD	Fund A high-yield portfolio ²	5.36	41.49	7.01	N/A ⁶
	High-yield benchmark <i>(Citigroup High-Yield Cash-Pay Capped Index)</i>	5.64	52.29	5.78	6.71
FIXED-INCOME	Fund A fixed-income portfolio ²	0.47	9.68	5.29	6.45
	Fixed-income benchmark <i>(Custom Citigroup Index⁴)</i>	0.24	7.60	5.34	6.53
GLOBAL REAL ESTATE SECURITIES	Fund A global real estate securities portfolio ²	5.80	32.56	2.38	N/A ⁶
	Real estate securities benchmark <i>(Wilshire U.S. Real Estate Securities Index and Wilshire Ex-U.S. Real Estate Securities Index⁵)</i>	5.83	34.61	0.31	10.92

NOTE: Past performance does not guarantee future results.

1. Total market value of Fund A is approximately \$329 million. This total includes accrual, liabilities, deposits between monthly valuation dates and operating cash on which a total fee of one-twelfth of 1% is deducted monthly from each account.
2. Returns are before the deduction of fees.
3. The U.S. equity benchmark changed from the Russell 3000 to the Dow Jones Total Stock Market Index in November 2007.

4. The fixed-income benchmark changed from the Citigroup Broad Investment Grade to the Custom Citigroup Index in October 2007.
5. The Global Real Estate Securities Benchmark is a composite of 60% Wilshire U.S. Real Estate Securities Index and 40% Wilshire Ex-U.S. Real Estate Securities Index.
6. This portfolio became a component of Fund A less than 10 years ago, so a 10-year return is unavailable.



U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Fund A's U.S. equity component returned 5.94% in the quarter, compared to the benchmark return of 5.81%. Strong returns by the risk-controlled and small-/mid-cap managers offset weaker relative performance by the larger-cap growth manager.

The job market remains sluggish with the unemployment rate hovering near 10%. While riskier stocks led the market for much of the second and third quarters, investors returned to focusing on valuation and earnings growth in the fourth quarter. Technology stocks led the way, with health care and consumer discretionary stocks close behind. Financials were the only sector to post a decline in the fourth quarter after a gain of approximately 125% from March 9 through the end of the third quarter.

Small- and mid-cap stocks trailed large-caps for the quarter but outpaced large-cap stocks by almost 6% for the year. Growth outperformed value for both the quarter and the year.

NON-U.S. EQUITIES MARKET REVIEW

Josh Stieler, CFA

Assistant Investment Manager, ELCA Board of Pensions

Funds A's non-U.S. equity component returned 3.96% for the quarter, compared to 3.74% for the benchmark. The growth manager drove the positive relative returns, more than offsetting poorer relative returns by the value manager.

International markets posted positive returns but trailed the U.S. market. As in the United States, many developed nations officially emerged from recession. Emerging markets proved uncharacteristically resilient during the global recession, experiencing slower, but not negative,

growth. As a result, emerging market equity returns have been strong. For the quarter, emerging market returns nearly doubled that of developed markets. Brazil, Mexico and Israel paced emerging markets, while Canada, Singapore and the United Kingdom led developed nation returns. Japan continued to disappoint, falling almost 3% for the quarter.

The U.S. dollar strengthened during the quarter, which detracted from dollar-based returns. However, the magnitude was relatively small, with dollar-based returns 0.34% below local currency returns.

GLOBAL REAL ESTATE SECURITIES MARKET REVIEW

David Quello, CFA

Associate Senior Investment Manager, ELCA Board of Pensions

Fund A's real estate securities component returned 5.80% in the fourth quarter, compared to the custom benchmark return of 5.83%. It was a roller-coaster year for the global real estate securities market, as the market bottomed in early March down 35% and then rebounded to end the year up 35%. The rebound was largely attributable to an improvement in capital markets due to strong government intervention across the globe and investors' increased comfort that real estate companies' balance sheets would weather the economic storm.

U.S. real estate securities outperformed the other regions during the quarter; however, non-U.S. real estate securities markets outperformed the U.S. markets for the year by approximately 13%. For the year, the portfolio underperformed the benchmark by 2.75%, largely due to cash drag given the market's strong absolute return.



FIXED-INCOME MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

Fund A's fixed-income portfolio outperformed its benchmark in the fourth quarter, returning 0.47% versus the benchmark return of 0.24%. Credit selection and non-agency mortgages continued to be the primary sources of value added.

Economic activity continued to improve during the quarter, extending for the first time this recession to the household sector and labor markets. Though the Fed Funds rate was held at 0.25%, the Treasury market began to anticipate rising rates, sending the yield on the 10-year note up by 0.53% to end the quarter at 3.84%. Short rates were little changed.

Though the Treasury segment posted a negative return of -1.28% for the quarter, credit returned a positive 0.88%, followed by asset-backed at 0.71% and mortgage at 0.52%. Overall fixed-income was little changed, returning 0.02% as measured by the Citigroup U.S. Broad Investment-grade index.

HIGH-YIELD MARKET REVIEW

Mark Haney, CFA

Senior Investment Manager, ELCA Board of Pensions

For the fourth quarter, the high-yield bond component of Fund A returned 5.36%. With the appetite for risk still strong, the lowest quality segments continued to perform the best; our managers continued to underperform their benchmark, the Citigroup High-Yield Cash-Pay Capped index, having underweighted low-quality issuers they feel do not compensate them for the risk they represent.

Though slowing down somewhat, the high-yield asset class had another strong quarter posting a 5.64% total return (as measured by the above referenced index). The dispersion in returns by quality was again quite wide with the highest rated BB-rated bonds returning 4.44% and the riskiest CCC-rated bonds gaining just under 11%.

Most industry segments continued to participate in the rally. Two notable stand-outs were the communications-related broadcast/outdoor and broadband industries returning 17.59% and 9.77%, respectively. Banking continued to struggle returning a negative -3.56% and home builders lagged posting a 2.67% return.

For calendar year 2009, high-yield was one of the strongest performing asset classes. The 12-month index return came in at 52.29%; the CCC component was up 111.26%.

ELCA FOUNDATION PARTNERSHIP WITH ELCA BOARD OF PENSIONS

The ELCA Board of Pensions serves as investment advisor for two of the ELCA Foundation's investment funds — the ELCA Endowment Fund Pooled Trust and the Charitable Gift Annuity Reserve.

Long-term projected investment returns should allow congregations and beneficiary ministries to further their mission efforts. The Board of Pensions, as the ELCA's lifetime source of health, retirement and other benefits and related services, supports the ELCA Foundation's efforts to help strengthen the mission and benevolence of this church.

THE ELCA FOUNDATION



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SOCIAL PURPOSE INVESTING IN FUND A

Fund A — a social purpose fund — is managed by the ELCA Foundation’s investment advisor for the ELCA Endowment Fund Pooled Trust — Fund A, the ELCA Board of Pensions, in a manner designed to achieve attractive long-term returns for Fund A participants while considering the corporate social responsibility work of the ELCA.

Fund A’s social purpose program uses three strategies

The overarching investment goal for Fund A is to achieve economic success for participants while considering the corporate social responsibility work of the ELCA. The Board of Pensions uses a three-pronged approach for addressing social and corporate governance issues:

- 1 Positive social investments** — These investments positively benefit communities while striving to earn acceptable returns for Fund A participants.
- 2 Shareholder advocacy** — The Board of Pensions votes proxies, initiates shareholder resolutions and engages in corporate dialogue to motivate corporate leaders to act in the best interests of shareholders (i.e., Fund A participants).
- 3 Social screening** — Social screening prohibits new investments in certain companies whose business practices don’t meet the ELCA’s corporate social criteria.

Fund A supports positive change

Positive social investing can provide a proactive way for Fund A participants to receive market-rate returns on investments that channel capital to underserved markets. Typical investments may include securitized loans to

ABOUT FUND A

You should carefully consider the investment objectives, risks, charges and expenses of any fund before investing in it. Fund A is subject to risk. Past performance cannot be used to predict future performance. The ELCA Board of Pensions’ funds, including Fund A, are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fund assets are invested in multiple sectors of the market. Some sectors, and therefore the funds, may perform below expectations and lose money over short or extended periods.

promote community development, sustainable forestry, women- and minority-owned businesses and renewable energy.

Shareholder advocacy supports shareholders

Through shareholder advocacy the Board of Pensions works to motivate corporate leaders to act in the best interests of shareholders. These shareholder advocacy efforts include three components:

- 1 Proxy voting** — The Board of Pensions takes seriously its fiduciary responsibility to vote proxies. All proxy voting decisions are made solely in the best interests of participants and for the purpose of enhancing shareholder value of the company involved.
- 2 Dialogues** — Dialogue involves meeting face-to-face with corporate leaders. This method of interacting with companies is effective because it helps corporate decision makers understand why a proposed change has been requested. The Board of Pensions works in cooperation with other areas of this church to engage companies in dialogue.
- 3 Shareholder resolutions** — If a company does not respond favorably to dialogue, the Board of Pensions may file a shareholder resolution. Shareholder resolutions appear on proxy ballots prior to a corporation’s annual meeting, giving every shareholder the opportunity to vote on a proposed change.

Social screens support church values

Each year, investment managers for screened portfolios receive a list of companies that may not be purchased for the fund due to business practices that conflict with the ELCA’s corporate social criteria. Companies may appear on the list if they engage in aspects of these businesses:

- harmful products or services like tobacco, distilled alcohol, pornography or gambling
- those that research and develop nuclear, biological or chemical weapons; or manage U.S. government-owned facilities for such weapons
- those with significant toxic waste releases, hazardous waste sites, and environmental penalties or liabilities; and major producers of toxic chemicals

In collaboration with its social criteria consultant — KLD Research & Analytics Inc. — the Board of Pensions researches and evaluates thousands of companies in the process of determining which companies should appear on the list.



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The ELCA Foundation regional gift planners are located in regional offices throughout the country. Call (800) 638-3522, ext. 2970 or visit www.elca.org/foundation to find out more about how:

- your congregation or other ministry can establish an account in the Endowment Fund Pooled Trust
- you or a friend can leave a legacy for ministry
- you can establish contact with the regional gift planner nearest you



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 Evangelical Lutheran Church in America

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